Msinga Local Municipality
Annual Financial Statements
for the year ended 30 June 2019

General Information

Legal form of entity	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)
Nature of business and principal activities	The provision of services to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.
Mayoral committee	
Executive Mayor	Cllr BP Ngcobo
Deputy Mayor	Cllr SG Masimula
Speaker	Cllr TL Kunene
Councillors	Cllr K Sithole
	Cllr M.W Sokhela
	Cllr T Mntugwa
	Cllr JV Langa
	Cllr TM Ndlovu
	Cllr SC Mpungose
	Cllr NC Xaba
	Cllr N M Mabaso
	Cllr LE Danisa
	Cllr BP Madondo
	Cllr P Dladla
	Cllr M Sithole
	Dr. FJ Sikhakhane
	Cllr GB Sikhakhane
	Cllr B Dumakude
	Cllr MS Khoza
	Cllr XS Xaba
	Cllr S Magubane
	Cllr A.S Shezi
	Cllr N.C Sikhosana
	Cllr BL Ntuli
	Cllr ZS Magwaza
	Cllr DM Ndlovu
	Cllr SR Sokhulu
	Cllr M.M.S Myeza
	Cllr B Mthethwa
	Cllr LD Ngubane
	Cllr SK Radebe
	Cllr NP Xulu
	Cllr N Majozi
	Cllr S Ximba
	Cllr ZE Shange
	Cllr TM Mabaso
	Cllr M.E. Ngobe
	Cllr T.B Mbatha
Grading of local authority	1

General Information

Accounting Officer	Sokhela S.L.
Business address	Main road Tugela Ferry
Postal address	Private Bag X530 Tugela Ferry 3010
Bankers	ABSA
Auditors	Auditor - General South Africa Registered Auditors
Telephone Number	(033) 493 8000
Website	www.umsinga.gov.za

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
UIF	Unemployment Insurance Fund
SARS	South African Revenue Service
PAYE	Pay As You Earn

Approval of Annual Financial Statements

I am responsible for the presentation of the Annual Financial Statements, which are set out on pages 6 to 48, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits made to Councillors, if any, and payments made to Councillors are for the loss of office, if any, as disclosed in note 22 of these Annual Financial Statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The Accounting Officer is responsible for the presentation and fair presentation of these Annual Financial Statements in accordance with Generally Recognised Accounting Practice (GRAP) in a manner required by local government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) including interpretations, guidelines and directives issued by the Accounting Standards Board.

It is the responsibility of the Accounting Officer to ensure that the Annual Financial Statements fairly present the statement of affairs of the municipality as at the end of the financial period and the results of its operations and cash flows for the period then ended.

Sokhela S.L.
Municipal Manager

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 6 to 48, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on its behalf by:

Sokhela S.L.
Municipal Manager

Statement of Financial Position as at 30 June 2019

	Notes	2019	2018 Restated
Assets			
Current Assets			
Receivables from exchange transactions	7	540 633	19 338
VAT receivable	8	4 266 922	-
Receivables from non-exchange transactions	9	4 338 289	2 682 274
Cash and cash equivalents	10	30 158 156	34 378 773
		39 304 000	**37 080 385**
Non-Current Assets			
Property, plant and equipment	4	211 907 167	179 993 157
Intangible assets	5	187 041	354 576
		212 094 208	**180 347 733**
Total Assets		**251 398 206**	**217 428 118**
Liabilities			
Current Liabilities			
Payables from exchange transactions	13	23 933 823	26 951 981
VAT payable	14	-	1 173 411
Unspent conditional grants and receipts	11	589 188	1 650 013
Provisions	12	497 931	615 976
		25 020 942	**30 391 381**
Non-Current Liabilities			
Employee benefit obligation	6	747 000	747 000
Provisions	12	5 555 478	5 038 014
		6 302 478	**5 785 014**
Total Liabilities		**31 323 420**	**36 176 395**
Net Assets		**220 074 786**	**181 251 723**
Reserves			
Revaluation reserve		650 000	650 000
Accumulated surplus		219 424 786	180 601 723
Total Net Assets		**220 074 786**	**181 251 723**

Statement of Financial Performance

	Notes	2019	2018 Restated
Revenue			
Revenue from exchange transactions			
Sale of goods		124 300	-
Service charges	16	174 276	126 689
Rental of facilities and equipment	17	915 886	427 453
Other income	18	501 706	206 260
Interest received	19	5 315 042	4 006 667
Total revenue from exchange transactions		**7 031 210**	**4 767 069**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	18 468 791	13 085 269
Transfer revenue			
Government grants & subsidies	21	190 976 333	178 939 000
Total revenue from non-exchange transactions		**209 445 124**	**192 024 269**
Total revenue	15	**216 476 334**	**196 791 338**
Expenditure			
Employee related costs	22	(56 870 338)	(40 985 451)
Remuneration of councillors	23	(12 019 163)	(11 218 524)
Depreciation and amortisation	24	(25 292 138)	(21 650 874)
Finance costs	25	(594 464)	(636 780)
Lease rentals on operating lease	26	(1 062 389)	(3 269 416)
Debt Impairment	9	-	(3 301 626)
Bad debts written off		(4 973 725)	-
Free basic services	27	(6 908 109)	(2 901 429)
Contracted services	28	(42 548 081)	(51 305 357)
General Expenses	29	(33 782 820)	(54 929 458)
Total expenditure		**(184 051 227)**	**(190 198 915)**
Surplus for the year		**32 425 107**	**6 592 423**

Statement of Changes in Net Assets

	Revaluation reserve	Accumulated surplus	Total net assets
Balance at 01 July 2017 restated	**480 000**	**174 009 298**	**174 489 298**
Changes in net assets			
Changes in revaluation surplus arising from changes in existing decommissioning, restoration and similar liabilities	170 000	-	170 000
Total changes	170 000	6 592 422	6 762 422
Restated* Balance at 01 July 2018	**650 000**	**186 257 464**	**186 907 464**
Changes in net assets			
Surplus for the year	-	33 167 322	33 167 322
Total changes	-	33 167 322	33 167 322
Balance at 30 June 2019	**650 000**	**219 424 786**	**220 074 786**

Notes

Cash Flow Statement

	Notes	2019	2018 Restated
Cash flows from operating activities			
Receipts			
Property Rates and Refuse Removal		14 273 513	4 742 672
Grants		210 571 982	207 954 781
Interest income		5 315 042	4 006 667
Other Income		501 706	206 260
Rentals		685 520	42 753
VAT Received		3 901 164	-
Cash generated from operations		235 248 927	216 953 133
Payments			
Employee costs and Councillors		(67 771 747)	(52 280 984)
Cash paid to suppliers		(92 316 072)	(101 361 436)
Payment to INEP		(23 139 724)	(29 000 000)
		(183 227 543)	(182 642 420)
Net cash flows from operating activities		**52 021 384**	**34 310 713**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(55 772 664)	(32 934 023)
Proceeds from sale of property, plant and equipment	4	32 366	(3 622 647)
Purchase of other intangible assets	5	-	(118 426)
Net cash flows from investing activities		**(56 242 003)**	**(36 675 096)**
Net decrease in cash and cash equivalents		**(4 220 617)**	**(2 364 383)**
Cash and cash equivalents at the beginning of the year		34 378 773	36 743 157
Cash and cash equivalents at the end of the year	10	**30 158 156**	**34 378 773**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	-	-	**-**	124 300	**124 300**	
Service charges	500 000	-	**500 000**	174 276	**(325 724)**	note 39.1
Rental of facilities and equipment	350 000	354 996	**704 996**	915 886	**210 890**	note 39.2
Other income	207 118 000	(206 504 000)	**614 000**	501 706	**(112 294)**	note 39.3
Interest received - investment	2 700 000	-	**2 700 000**	5 315 042	**2 615 042**	note 39.4
Total revenue from exchange transactions	**210 668 000**	**(206 149 004)**	**4 518 996**	**7 031 210**	**2 512 214**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	12 000 000	5 234 766	**17 234 766**	18 468 791	**1 234 025**	note 39.5
Transfer revenue						
Government grants & subsidies	36 715 000	173 628 000	**210 343 000**	190 976 333	**(19 366 667)**	note 39.6
Total revenue from non-exchange transactions	**48 715 000**	**178 862 766**	**227 577 766**	**209 445 124**	**(18 132 642)**	
Total revenue	**259 383 000**	**(27 286 238)**	**232 096 762**	**216 476 334**	**(15 620 428)**	
Expenditure						
Personnel	(52 548 669)	(8 832 254)	**(61 380 923)**	(68 751 037)	**(7 370 114)**	note 39.7
Remuneration of councillors	(9 925 339)	544 760	**(9 380 579)**	(138 465)	**9 242 114**	note 39.8
Depreciation and amortisation	(9 527 748)	(12 486 020)	**(22 013 768)**	(25 292 138)	**(3 278 370)**	note 39.9
Finance costs	-	(500 000)	**(500 000)**	(594 464)	**(94 464)**	note 39.10
Lease rentals on operating lease	-	-	**-**	(1 062 389)	**(1 062 389)**	note 39.11
Debt Impairment	(400 000)	(2 600 000)	**(3 000 000)**	-	**3 000 000**	note 39.12
Bad debts written off	-	-	**-**	(4 973 725)	**(4 973 725)**	
Free basic services	-	(10 871 769)	**(10 871 769)**	(6 908 109)	**3 963 660**	note 39.13
Contracted Services	(42 240 856)	(8 298 213)	**(50 539 069)**	(42 548 081)	**7 990 988**	note 39.14
General Expenses	(147 166 075)	79 629 198	**(67 536 877)**	(33 040 604)	**34 496 273**	note 39.15
Total expenditure	**(261 808 687)**	**36 585 702**	**(225 222 985)**	**(183 309 012)**	**41 913 973**	
Surplus for the year	**(2 425 687)**	**9 299 464**	**6 873 777**	**33 167 322**	**26 293 545**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(2 425 687)**	**9 299 464**	**6 873 777**	**33 167 322**	**26 293 545**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003) with the exception of certain accounting policies adopted in accordance with International Accounting Standards (IAS).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

The principal accounting policies adopted in the preparation of these annual financial statements are set out below:

GRAP 1 Presentation of Financial Statement

GRAP 2 Cash Flow Statements

GRAP 3 Accounting Policies, Changes in Accounting Estimates and Error

GRAP 5 Borrowing Costs

GRAP 6 Consolidated and Separate Financial Statements

GRAP 9 Revenue from Exchange Transactions

GRAP 12 Inventories

GRAP 13 Leases

GRAP 14 Events after the Reporting Date

GRAP 16 Investment property

GRAP 17 Property, Plant and Equipment

GRAP 19 Provisions, Contingent Liabilities and Contingent Asset

GRAP 21 Impairment of non-cash generating asset

GRAP 23 Revenue from Non-exchange transactions

GRAP 24 Presentation of budget information

GRAP 25 Employee benefits

GRAP 26 Impairment of cash generating assets

GRAP 31 Intangible Assets

GRAP 100 Non-Current Assets Held for Sale and Discontinued Operations

GRAP 104 Financial Instruments

GRAP 106 Transfer of Functions between entities not under common Control

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Debtors receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for the assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

1.4 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life

Accounting Policies

1.4 Property, plant and equipment (continued)

Buildings	Straight line	10-30 years
Roads and pavings	Straight line	10-30 years
Air conditioners	Straight line	5 - 7 years
Furniture and fixtures	Straight line	3 -10 years
Vehicles and tractors	Straight line	3-10 years
Office equipment	Straight line	3-10 years
IT equipment	Straight line	3-5 years
Machinery and equipment	Straight line	3-10 years
Radio	Straight line	3-5 years
Electricity	Straight line	5-25 years
Pedestrian Malls	Straight line	10-30 years
Recreational facilities	Straight line	5-10 years
Sewerage	Straight line	20-30 years
Landfill site	Straight line	21 years
Tools and loose gear	Straight line	5 years
Water network	Straight line	20 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 4).

Subsequent Measurement - Revaluation Model (Land, buildings and other infrastructure)
Subsequent to initial recognition, land, buildings and other infrastructure assets are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.
An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reserves a revaluation decrease of the same asset previously recognised in surplus or deficit.

1.4 Property, plant and equipment (continued)

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit of that asset.
Land is not depreciated as it is deemed to have an indefinite useful life.
Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.
Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

1.5 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Accounting Policies

1.5 Intangible assets (continued)

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Licenses	Straight line	1-5 years

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

Accounting Policies

1.6 Financial instruments (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unutilised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.6 Financial instruments (continued)

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Subsequent measurement

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.6 Financial instruments (continued)

Investments

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Trade and other receivables

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal operating considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Trade payable and borrowings

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

Accounting Policies

1.7 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.8 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.9 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, the municipality recognises the obligation at the higher of:

1.9 Provisions and contingencies (continued)

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.10 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

1.11 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Grants, transfers and donations

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.12 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

1.13 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Accounting Policies

1.13 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.14 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.15 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA as:

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is notin accordance with, a requirement of this Act, and which has not been condoned in terms of section 170; of this Act; or
(b) in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); orany provincial legislation providing for procurement procedures in that provincial government.
(c) expenditure incurred by a municipality or municipal entity in contravention of, or that is notin accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality’s by-laws.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.16 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Accounting Policies

1.16 Related parties (continued)

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.17 Retirement benefits

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provisional basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

1.18 Assets under construction

The cost of property, plant and equipment that is under construction as of the reporting date is recognised as an asset if
(a) it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and
(b) the cost or fair value of the item(s) can be measured reliably.
Assets under construction consists of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. Expenditure comprises direct labour, material and overhead, if appropriate.

1.20 Retention

Retention is money which has been earned by the Contractor for work done, but which is not paid out at the time the Interim Payment Certificate is issued. Retention money is held by the Municipality to ensure that the Contractor does his work properly. Sometimes, an Employer will accept a "Retention Guarantee" instead of deducting retention money. If this is the case, it will be stated in the Contract Data.
Half of the retention money is paid to the Contractor when the Engineer issues the Certificate of Completion when the contractor has completed the works. The other half is paid within 14 days after the end of the Defects Liability Period.

2. Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either

2. Impairment of non-cash-generating assets (continued)

- the period of time over which an asset is expected to be used by the entity; or
- the number of production or similar units expected to be obtained from the asset by the entity.

Notes to the Annual Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 1 (amended): Presentation of Financial Statements	April 1, 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	April 1, 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	April 1, 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	April 1, 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	April 1, 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	April 1,2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	April 1, 2020	Unlikely there will be a material impact

4. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	21 493 609	(9 132 414)	12 361 195	21 493 609	(8 426 540)	13 067 069
Plant and machinery	1 036 604	(291 034)	745 570	358 771	(177 572)	181 199
Furniture and fixtures	3 152 141	(2 011 383)	1 140 758	2 441 325	(1 585 660)	855 665
Motor vehicles	30 729 841	(20 232 332)	10 497 509	28 005 386	(17 826 206)	10 179 180
Office equipment	(1 670 659)	2 534 714	864 055	3 188 654	(2 537 815)	650 839
Infrastructure	267 441 089	(97 176 705)	170 264 384	226 789 384	(77 291 220)	149 498 164
Community	28 003 181	(12 259 485)	15 743 696	17 017 353	(11 746 312)	5 271 041
Refuse dump	2 606 564	(2 316 564)	290 000	2 606 564	(2 316 564)	290 000
Total	**352 792 370**	**(140 885 203)**	**211 907 167**	**301 901 046**	**(121 907 889)**	**179 993 157**

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Revaluations / ommissions	Depreciation	Total
Buildings	13 067 069	-	-	-	(705 874)	12 361 195
Plant and machinery	181 199	224 501	-	453 333	(113 463)	745 570
Furniture and fixtures	855 665	20 800	(1 271)	702 159	(436 595)	1 140 758
Motor vehicles	10 179 180	3 478 316	(29 882)	-	(3 130 105)	10 497 509
Office equipment	650 839	410 034	(1 213)	142 824	(338 429)	864 055
Infrastructure	149 498 164	40 651 705	-	-	(19 885 485)	170 264 384
Community	5 271 041	10 987 308	-	-	(514 653)	15 743 696
Refuse dump	290 000	-	-	-	-	290 000
	179 993 157	**55 772 664**	**(32 366)**	**1 298 316**	**(25 124 604)**	**211 907 167**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Work in progress	Adjustment	Revaluations	Depreciation	Total
Buildings	13 358 783	384 632	-	23 081	-	(699 427)	13 067 069
Plant and machinery	73 595	145 105	-	1 305	-	(38 806)	181 199
Furniture and fixtures	805 053	251 905	-	76 323	-	(277 616)	855 665
Motor vehicles	11 211 192	810 300	-	969 166	-	(2 811 478)	10 179 180
Office equipment	251 862	296 358	-	330 156	-	(227 537)	650 839
Infrastructure	138 520 020	14 205 246	12 093 279	1 523 976	-	(16 844 357)	149 498 164
Community	52 706	4 747 198	-	698 640	-	(227 503)	5 271 041
Refuse dump	240 000	-	-	-	170 000	(120 000)	290 000
	164 513 211	**20 840 744**	**12 093 279**	**3 622 647**	**170 000**	**(21 246 724)**	**179 993 157**

Expenditure incurred to repair and maintain property, plant and equipment

5. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Intangible assets	1 270 966	(1 083 925)	187 041	1 270 966	(916 390)	354 576

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Intangible assets	354 576	(167 535)	187 041

5. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Intangible assets	640 300	118 426	(404 150)	354 576

Notes to the Annual Financial Statements

	2019	2018 Restated

6. Employee benefit obligations

Defined benefit plan

Carrying value		
Opening Balance	747 000	719 000
Current service cost	100 000	98 000
Interest Cost	77 000	77 000
Benefit payment	(69 000)	(45 000)
Acturial gain	(115 000)	(102 000)
	740 000	**747 000**

Net expense recognised in the statement of financial performance		
Current service cost	100 000	98 000
Interest cost	77 000	77 000
Benefit payment	(69 000)	(45 000)
Acturial loss	(115 000)	(102 000)
	(7 000)	**28 000**

Nature of Liability

The employer's long service bonus awards consist of an obligation to pay out a bonus in the year of the employee attaining the required service.This obligation represents a liability to the employer and the value is represented by the present value of the total long service bonus awards expected to become payable under the employer's current policy. Msinga Local Municipality offers bonuses for every 5 years of completed service to 45 years.

Long service accumulated leave must be taken within one year of earning such leave or may be wholly or partially cashed . Msinga Local Municipality advised that in most cases, employees choose to exercise the option to wholly convert their accumulative leave bonus days into cash.

Summary of acturial assumptions.

The long service bonus awards is a function of annual leave days and is convertible into cash in the year the employee attains the service eligible for an award. As a result the award is also function of the employee's annual salary.

The annual salary is converted into a daily salary by dividing the annual salary by 250.The consumer price inflation of 6.82% p.a. is obtained from the differential between the long term market yield on the index-linked bond (the R197 at 1.56% p.a.) consistent with the estimated term of the liabilities and those of nominal bond (the R186 at 8.48% p.a.).However, it is the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values. We have assumed that salary inflation will exceed consumer price inflation by 1% per annum.The assumption regarding the relative levels of these two rates is our expectation of the long-term average. GRAP 25 defines the determination of the investment return assumption to be used as the rate that can "be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used.

The currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations." As such a discount rate of 8.51% p.a. has been used. This was derived from the yield curve, without a tax adjustment, obtained from the Bond.

Liability valuation method.

Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date.In determining these liabilities, due allowance has been made for future award increases.For each employee, this projection is based on the probability of being employed at each service award date, taking into account the assumed rates of withdrawal, early retirement and death.In accordance with the requirements of GRAP 25, the Projected Unit Credit method of funding has been applied**.**

Notes to the Annual Financial Statements

	2019	2018 Restated

7. Receivables from exchange transactions

Accrued interest income	-	19 338
Sundry Debtors (Rentals)	240 633	-
Building Deposit	300 000	-
	540 633	**19 338**

8. VAT receivable

VAT	4 266 922	-

2018/2019 VAT 201's were submitted to SARS up until the 31st of June 2019. Accounting treatment for VAT is on cash basis.

9. Receivables

Gross balances		
Rates	36 692 813	33 496 639
Refuse	3 916 421	361 907
Other	68 868	189 817
	40 678 102	**34 048 363**
Less: Allowance for impairment		
Rates	(32 389 222)	(30 859 670)
Refuse	(3 888 764)	(350 760)
Other	(61 827)	(155 659)
	(36 339 813)	**(31 366 089)**
Net balance		
Rates	4 303 591	2 636 969
Refuse	27 657	11 147
Other	7 041	34 158
	4 338 289	**2 682 274**
Included in above is receivables from exchange transactions		
Refuse	27 657	11 147
Other	7 041	34 158
	34 698	**45 305**
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	4 303 591	2 636 969
Net balance	**4 338 289**	**2 682 274**
Rates		
Current (0 -30 days)	1 227 275	968 103
31 - 60 days	1 068 347	965 457
61 - 90 days	1 005 566	469 739
91 - 120 days	1 002 404	233 670
121 - 365 days	36 374 510	31 411 394
	40 678 102	**34 048 363**

Notes to the Annual Financial Statements

9. Receivables (continued)

	2019	2018 Restated
Refuse		
Current (0 -30 days)	7 052	5 082
31 - 60 days	6 874	3 465
61 - 90 days	6 874	1 733
91 - 120 days	6 856	867
121 - 365 days	59 039	-
	86 695	**11 147**
Other (specify)		
Current (0 -30 days)	1 760	2 522
31 - 60 days	1 760	2 280
61 - 90 days	1 760	1 400
91 - 120 days	1 760	925
121 - 365 days	57 518	27 031
	64 558	**34 158**

Summary of debtors by customer classification

	2019	2018 Restated
Households		
Current (0 -30 days)	231 457	60 388
31 - 60 days	230 698	60 388
61 - 90 days	230 698	60 388
91 - 120 days	230 667	60 377
121 - 365 days	8 338 863	6 654 767
	9 262 383	6 896 308
Less: Allowance for impairment	(8 338 863)	(6 722 386)
	923 520	**173 922**
Industrial/ commercial		
Current (0 -30 days)	373 128	307 046
31 - 60 days	337 093	305 186
61 - 90 days	301 380	305 187
91 - 120 days	301 380	305 165
121 - 365 days	5 849 313	7 553 169
	7 162 294	8 775 753
Less: Allowance for impairment	(5 849 313)	(7 917 632)
	1 312 981	**858 121**
National and provincial government		
Current (0 -30 days)	631 501	608 273
31 - 60 days	509 190	605 628
61 - 90 days	482 123	579 649
91 - 120 days	478 973	574 847
121 - 365 days	16 741 127	16 007 905
	18 842 914	18 376 302
Less: Allowance for impairment	(16 741 127)	(16 726 071)
	2 101 787	**1 650 231**

Notes to the Annual Financial Statements

	2019	2018 Restated

9. Receivables (continued)

Total		
Current (0 -30 days)	1 867 587	975 707
31 - 60 days	1 076 981	971 202
61 - 90 days	1 014 201	472 871
91 - 120 days	1 011 020	235 461
121 - 365 days	30 929 303	31 393 122
	35 899 092	34 048 363
Less: Allowance for impairment	(31 560 803)	(31 366 089)
	4 338 289	**2 682 274**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(31 366 089)	(28 064 463)
Contributions to allowance	-	(3 301 626)
Bad Debt written off	(5 410 510)	-
Reversal of allowance	436 786	-
	(36 339 813)	**(31 366 089)**

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. Consumer debtors are impaired as a result of non collectability of the debtors due to the fact that people do not have title deeds and no basic services are offered including sewer system and refuse remove.

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	30 158 156	34 378 773

10. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2019	30 June 2018	30 June 2017	Cash book balances 30 June 2019	30 June 2018	30 June 2017
Absa bank Primary Account - Greytown Branch Account number 4053635886	(142 441)	492 312	4 253 163	(142 441)	492 312	4 253 163
FNB Bank - Investment Account - Account number 74105142017	-	14 001 434	13 065 746	-	14 001 434	13 065 748
FNB Bank - Investment Account - Account Number 62499591777	1 055 586	316 680	300 899	1 055 586	316 680	300 899
FNB Bank - Investment Account - Account Number 62124265837	-	5 303	5 541	-	5 303	5 541
ABSA Bank - Investment Account - Account Number 2064443721	899 936	7 946 940	15 893 883	899 936	7 946 940	15 893 883
ABSA Investment Account - Account Number 2076957671	673 370	8 000 000	-	673 370	8 000 000	-
Liberty Life - Investment Account - Account Number 60586132	-	1 460 274	1 366 117	-	1 460 274	1 366 117
Liberty Life - Investment Account - Account Number 60586157	-	359 305	309 635	-	359 305	309 635
Liberty Life - Investment Account - Account Number 60586164	-	359 305	309 635	-	359 305	309 635
Liberty Life - Investment Account - Account Number 60586171	-	359 305	309 635	-	359 305	309 635
Liberty Life - Investment Account - Account Number 60586189	-	359 305	309 635	-	359 305	309 635
Liberty Life - Investment Account - Account Number 60586196	-	359 305	309 635	-	359 305	309 635
Liberty Life - Investment Account - Account Number 60586206	-	359 305	309 635	-	359 305	309 635
FNB Bank - Investment Account - Account Number 62778819303	5 111 213	-	-	5 111 213	-	-
Standard Bank Account - Investment Account - Account Number 3484660130-12	152 448	-	-	152 448	-	-
Standard Bank Account - Investment Account - Account Number 3484660130-14	1 381 781	-	-	1 381 781	-	-
Standard Bank Account - Investment Account - Account Number 3484660130-15	10 550 826	-	-	10 550 826	-	-
Standard Bank Account - Investment Account - Account Number 3484660130-16	10 475 437	-	-	10 475 438	-	-
Total	**30 158 156**	**34 378 773**	**36 743 159**	**30 158 157**	**34 378 773**	**36 743 161**

	2019	2018 Restated

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Sportsfield grant	-	1 333 333
Construction of shelters grant	589 188	316 680
	589 188	**1 650 013**

12. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Total
Landfill site rehabilitation	5 038 013	517 464	-	5 555 477
Performance bonus provision	615 976	497 931	(615 976)	497 931
	5 653 989	**1 015 395**	**(615 976)**	**6 053 408**

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Total
Landfill site rehabilitation	4 478 233	559 780	-	5 038 013
Performance bonus provision	623 930	615 976	(623 930)	615 976
	5 102 163	**1 175 756**	**(623 930)**	**5 653 989**

Non-current liabilities	5 555 477	5 038 013
Current liabilities	497 931	615 976
	6 053 408	**5 653 989**

13. Payables from exchange transactions

Trade payables	3 236 471	10 590 976
Payments received in advanced	2 878 040	2 020 740
Accrued leave pay	5 771 414	4 320 115
Discovery Health	8 887	-
Outstanding Cheques	-	8 333 043
Salga Subscription	1 015 210	-
Accrued vehicle expenses	-	346 303
KZN Department of Housing	6 279 941	-
Retention & Surity	4 743 859	1 340 804
	23 933 822	**26 951 981**

14. VAT payable

Tax refunds payables	-	1 173 412

Notes to the Annual Financial Statements

	2019	2018 Restated

15. Revenue

Sale of goods	124 300	-
Service charges	174 276	126 689
Rental of facilities and equipment	915 886	427 453
Other income	501 706	206 260
Interest received - investment	5 315 042	4 006 667
Property rates	18 468 791	13 085 269
Government grants & subsidies	190 976 333	178 939 000
	216 476 334	**196 791 338**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Sale of goods	124 300	-
Service charges	174 276	126 689
Rental of facilities and equipment	915 886	427 453
Other income	501 706	206 260
Interest received - investment	5 315 042	4 006 667
	7 031 210	**4 767 069**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	18 468 791	13 085 269
Transfer revenue		
Government grants & subsidies	190 976 333	178 939 000
	209 445 124	**192 024 269**

16. Service charges

Refuse Removal	174 276	126 689

17. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	915 886	427 453

18. Other revenue

Other income	501 706	206 260

19. Investment revenue

Interest revenue		
Interest Received	5 315 042	4 006 667

Notes to the Annual Financial Statements

	2019	2018 Restated

20. Property rates

Rates received

	2019	2018 Restated
Residential	2 178 708	504 083
Commercial	5 046 593	3 266 867
State	10 890 666	9 370 600
Municipal	352 824	160 541
Less: Rebates	-	(216 822)
	18 468 791	**13 085 269**

Valuations

	2019	2018 Restated
Residential	25 296 000	25 296 000
Commercial	714 094 000	1 079 507 000
State	187 609 000	125 278 000
Municipal	17 154 000	17 154 000
Other	721 447 000	356 034 000
	1 665 600 000	**1 603 269 000**

21. Government grants and subsidies

	2019	2018 Restated
Operating grants		
Equitable share	145 573 000	133 437 000
Finance Management Grant (FMG)	1 900 000	1 900 000
Extended Public Works Programme	4 394 000	4 775 000
Library Grant	2 394 333	795 000
	154 261 333	**140 907 000**
Capital grants		
Municipal infrastructure grant	36 715 000	38 032 000
	190 976 333	**178 939 000**

Municipal Infrasructure Grant (MIG)

	2019	2018 Restated
Current-year receipts	36 715 000	38 032 000
Conditions met - transferred to revenue	(36 715 000)	(38 032 000)
	-	-

Finance Management Grant (FMG)

	2019	2018 Restated
Current-year receipts	1 900 000	1 900 000
Conditions met - transferred to revenue	(1 900 000)	(1 900 000)
	-	-

Sportsfields Grants

	2019	2018 Restated
Balance unspent at beginning of year	1 333 333	1 333 333
Conditions met - transferred to revenue	(1 333 333)	-
	-	**1 333 333**

Notes to the Annual Financial Statements

	2019	2018 Restated

21. Government grants and subsidies (continued)

Construction of Shelters Grant

Balance unspent at beginning of year	316 680	300 899
Current-year receipts	228 982	-
Current-year receipts interest from FNB	43 526	15 781
	589 188	**316 680**

Municipal Support Grant

Extended Public Works Programme

Current-year receipts	4 394 000	4 775 000
Conditions met - transferred to revenue	(4 394 000)	(4 775 000)
	-	-

Library Grant

Current-year receipts	1 061 000	795 000
Conditions met - transferred to revenue	(1 061 000)	(795 000)
	-	-

Integrated National Electrification Programme (INEP)

Current-year receipts	20 700 000	29 000 000
Conditions met	(20 700 000)	(29 000 000)
	-	-

The grant received from the department of energy in respect of electrification projects that are handed over to Eskom once completed.Thus the receipt of the grant is not recognised as revenue.

Notes to the Annual Financial Statements

	2019	2018 Restated

22. Employee related costs

Basic	45 588 718	24 924 137
Bonus	2 126 978	1 566 819
Medical aid - company contributions	1 147 032	1 425 138
UIF	334 366	559 079
Performance bonus provision	77 768	615 976
Travel, motor car, accommodation and subsistence	1 275 785	6 952 831
Overtime payments	1 817 198	1 575 758
Long-service awards	163 399	17 799
	52 531 244	**37 637 537**

Remuneration of Municipal Manager

Annual Salary	587 816	908 105
Acting Allowance	87 250	-
Car Allowance	280 356	120 000
Area Allowance	34 433	-
Performance Bonus	96 385	-
Contributions to UIF, Medical and Pension Funds	13 323	41 040
Other	114 000	90 811
	1 213 563	**1 159 956**

The Municipal Manager was initially appointed as the acting Municipal Manager whilst he still held the position of Technical Director. In August 2018. He was appointed permanently as the Municipal Manager (during the financial year ended 30 June 2019) and thus, was paid according to the 1st grade level of the government gazette, published on the 08th of November 2018 (The Manager was back paid the salary owing to him). He was also entitled to Head of Department's (HOD's) benefits in accordance with the Municipality's policy and as such, he received an acting allowance for the month of July 2018.

Remuneration of Chief Finance Officer

Annual Salary	446 522	-
Car Allowance	288 389	382 793
Area Allowance	288 389	-
Other	100 222	-
Contributions to UIF, Medical and Pension Funds	9 805	-
	1 133 327	**382 793**

The Chief Financial Officer was appointed permanently in the prior year was paid in proportion to the number of days worked for that year. He did receive his full remuneration package during the year under review, which was paid according to the grade 1 of the official government gazette, published on the 08th of November 2018. He also received other remuneration benefits, which were paid in accordance with the Municipality's policies.

Remuneration of Director: Planning

Annual Salary	72 520	485 356
Car Allowance	48 376	39 600
Area Allowance	4 838	-
Other	27 360	42 453
Contributions to UIF, Medical and Pension Funds	1 662	-
	154 756	**567 409**

The Director of Planning was newly appointed in the current year (as a result of the previous director resigning during the year under review). The Director was paid according to the grade 1 of the government Gazette, published on the 08th of November 2018 and was also entitled to enjoy other remuneration benefits in accordance with the Municipality's policies.

Notes to the Annual Financial Statements

	2019	2018 Restated

22. Employee related costs (continued)

Remuneration of Director: Community

Annual Salary	472 394	-
Car Allowance	280 722	-
Area Allowance	27 998	-
Other	65 244	-
Contributions to UIF, Medical and Pension Funds	9 046	-
	736 114	**-**

The Director of Community is a new position that was occuppied during the year under review. The Director was paid according to the grade 1 of the government Gazette, published on the 08th of November 2018 and was also entitled to enjoy other remuneration benefits in accordance with the Municipality's policiest

Remuneration of Director: Corporate and Human Resources

Annual Salary	474 293	127 464
Car Allowance	314 402	67 656
Area Allowance	30 487	-
Bonus	24 096	-
Other	66 625	-
Contributions to UIF, Medical and Pension Funds	10 165	-
Other	-	5 039
	920 068	**200 159**

The Director was appointed permanently in the prior year was paid in proportion to the months worked for that year. He did receive his full remuneration package during the year under review, which was paid according to the grade 1 of the official government gazette, published on the 08th of November 2018. He also received other remuneration benefits, which were paid in accordance with the Municipality's policiess

Remuneration of Director: Technical Services

Annual Salary	78 146	561 606
Car Allowance	78 146	72 000
Area Allowance	7 815	-
Contributions to UIF, Medical and Pension Funds	1 902	-
Other	15 257	52 992
Other	-	351 008
	181 266	**1 037 606**

The Director of Technical Services was newly appointed in the current year (as a result of the previous director being appointed as the new Munucipal Manager the year under review). The Director was paid according to the grade 1 of the government Gazette, published on the 08th of November 2018 and was also entitled to enjoy other remuneration benefits in accordance with the Municipality's policie.

23. Remuneration of Councillors

Executive Mayor	837 872	789 648
Deputy Executive Mayor	398 890	367 008
Mayoral Committee Members	1 763 003	1 781 100
Speaker	632 275	367 008
Councillors	8 387 123	7 913 760
	12 019 163	**11 218 524**

Notes to the Annual Financial Statements

	2019	2018 Restated

23. Remuneration of Councillors (continued)

In-kind benefits

The Mayor, Deputy Mayor and the Speaker are not full-time employees of the municipality. Due to their work load, they are provided with an office and secretarial support at the cost of the Council.

The Mayor, makes use of the council owned vehicle. The Mayor has 4 contracted bodyguards, the Deputy Mayor has 3 contracted bodyguards whilst the Speaker has 3 bodyguards.

24. Depreciation and amortisation

	2019	2018 Restated
Property, plant and equipment	25 124 602	21 246 724
Intangible assets	167 536	404 150
	25 292 138	**21 650 874**

25. Finance Cost

	2019	2018 Restated
Other interest paid	594 464	636 780

Other interest paid relates to finance costs charged on provision for landfil site as follows 2019 R 618 464,00 (2018 R 559 780,00) and provision for long service award as follows 2019 R 77 000,00 (2018 R 77 000,00).

26. Lease rentals on operating lease

	2019	2018 Restated
Equipment		
Contractual amounts	1 062 382	3 269 416

27. Free basic services

	2019	2018 Restated
Electricity	6 908 109	2 901 429

28. Contracted services

	2019	2018 Restated
Information Technology Services	368 408	356 509
Outsourced Services	4 437 394	9 370 652
Consultant and Professional Services	7 421 190	2 561 765
Repairs and Maintenance	18 023 090	24 828 447
Contractors	12 297 999	14 187 984
	42 548 081	**51 305 357**

Notes to the Annual Financial Statements

	2019	2018 Restated

29. General expenses

Advertising	4 063 060	2 829 149
Auditors remuneration	2 217 065	1 134 719
Bank charges	199 077	1 103 433
Conference and seminars	69 319	-
Conferences and seminars	1 451 807	2 458 514
Consumables	5 878 524	10 443 859
Electricity	1 574 520	570 125
Entertainment	124 839	7 646 628
Fuel and oil	613 815	-
Learnership and Internship expenses	35 970	434 288
Licences	-	167 910
Management Services	1 308 895	3 490 770
Motor vehicle expenses	222 401	3 155 946
Printing and stationery	-	430 759
Protective clothing	1 648 230	725 340
Relief fund	-	484 590
Seating Allowance Traditional Leaders	10 172	2 500
Skills development levy	-	223 529
Special projects	1 040 647	8 513 165
Subscriptions and membership fees	1 089 930	964 000
Subsistence and travel	6 755 872	6 264 324
Telephone and fax	1 596 046	1 395 789
Ward committees	3 140 415	2 490 119
	33 040 604	**54 929 458**

30. Commitments

Authorised capital expenditure

• Property, plant and equipment	26 741 077	7 822 488
Total capital commitments		
Already contracted for but not provided for	26 741 077	7 822 488

Authorised operational expenditure

Already contracted for but not provided for		
• Approved Operating Expenditure	2 886 305	16 810 081
Total operational commitments		
Already contracted for but not provided for	2 886 305	16 810 081

Total commitments

Total commitments		
Authorised capital expenditure	26 741 077	7 822 488
Authorised operational expenditure	2 886 305	16 810 081
	29 627 382	**24 632 569**

This committed expenditure relates to capital and operational expenses, which will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated.

Notes to the Annual Financial Statements

	2019	2018 Restated

31. Related party transactions

During the year under review the following related parties were identified:
The Managing Director of Ekanobhabha Trading Enterprise is the father of Mr TN Mchunu who is an employee of the municipality.The employee (Mr TN Mchunu) is not a member of Key Management Personnel nor does he hold any interest in Ekanobhabha Trading Enterprise. An amount of R 895 648.00 was paid to the service provider in the 2018/2019 financial year.

The managing Director of Paymaster Trading (Pty) Ltd is the father of Mr S Ngema who is an employee of the municipality. An amount of R 138 600.00 was paid to the service provider in the 2018/2019.

Both (Mr TN Mchunu and Mr S Ngema) signed formal written declaration was signed and submitted by the service provider, disclosing the fact that they are a related party of an employee of the municipality. The employee (Mr S Ngema) is not a member of Key Management Personnel nor does he hold any interest in Paymaster Trading (Pty) Ltd.

All related party transaction were at arms' length.

As at 30 June 2019, the following amounts were owing to the service provider by the municipality:y:

Name of supplier	2019/06/30	Nature of outstanding balance	Outstanding balance	Provision for doubtful debt	Net Balance.
Ekanobhabha Trading Enterprise	0	Supply of goods	7 500	0	0
Paymaster Trading (Pty) Ltd	0	Supply of goods	13 600	0	0

32. Prior period errors

33. Prior Period Error

The comparatives for 2017/2018 have been restated due to the following errors:

Errors

Error 1

In the previous year an amount of R 77000 relating to the interest cost calculated on the provision for long service award was erroneously disclosed/classified in the Annual Financial Statements (AFS) as employee costs as opposed to being classified as part of the Finance costs.This has been corrected and the balance restated as a seperate line item as follows:

	2019	2018 Restated
Finance cost	-	559 780
Interest cost (As calculated at 30 June 2018)	-	77 000
Restated Finance cost balance	**-**	**636 780**

Error 2

In the previous year an operating lease (lease between the municipality and Konica Minolta) expense was erroneously disclosed in the Annual Financial Statements (AFS) as printing and stationary under the general expenses as opposed to being disclosed as a seperate line item in the Statement of Financial Performance. This has been corrected and the balance restated as follows:

Notes to the Annual Financial Statements

	2019	2018 Restated

33. Prior Period Error (continued)

Printing and Stationary	-	3 700 175
Lease rentals on operating expenses	-	(3 269 416)
Restated closing balance	**-**	**430 759**

Error 3

In the previous year the Receivables note was incorrectly disclosed, as the total of R 438986 was disclosed without disclosing allowance for impairment .This has been corrected and the balance restated as follows:

Total Receivables	-	2 682 274
Allowance for impairment	-	31 366 089
Restated closing balance	**-**	**34 048 363**

Error 4

In the prior year repairs and maintenance with the balance of R 28 571 440 was previously disclosed as a separate line item and has now been correctly reclassified and disclosed as part of the contracted services.

In the prior year Transfer and Subsidies with the balance of R 3 000 882 was disclosed in the Statement of Financial Performance as separate line item and has since been corrected and disclosed as contracted services.

In the prior year the general expense contained the below listed expenses which has been moved to contracted service:

Internal Audit Fees	R 827 849
Cleaning Services	R 1 642 163
Indigent Support	R 2 511 395
Insurance	R 62 646
Pauper burial	R 451 306

In the previous years 2014/2016 it was noted that the profit was understated due to the incorrect recording of authorised debt write off accumulated over a period of the past two years, the accumulated surplus has been since restated to account for the understatemThe Municipality did not assess at each reporting date whether there is any indication that the municipality's expectations about the residual value and the useful lives of assets have changed since the preceding reporting date. If any such indications existed, the municipality should had revised the expected useful lives and/or residual values accordingly of the profit amount to R 13 749 246.

In the prior year the Municipality did not assess at each reporting date whether there is any indication that the municipality's expectations about the residual value and the useful lives of assets have changed since the preceding reporting date. If any such indications existed, the municipality should had revised the expected useful lives and/or residual values accordingly

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Period	**Depreciation**	**Revised depreciation**	**Difference**
Until 2017	R103 300 096.79	(R101 173 405.65)	R2 126 691.14
2018	R 21 523 693.48	(R 21 650 132.16)	R 126 438.68
Total	**R124 823 790.27**	**(R122 823 537.81)**	**R2 253 129.82**

Notes to the Annual Financial Statements

	2019	2018 Restated

34. Contingent Liabilities

During the year under review Steyns chartered accountants incorporated (Steyns chartered accountants incorporated is a former Internal Auditor suing the Municipality for breach of contract. He claims that the municipality breached an agreement by deciding to terminate his contract and he is suing for the outstanding amount which was left in the contract) has filed a claim of R1 211,140, with attracts interest at 10,25 % per annum, calculated from 31 March 2018 till the date of final payment, for unfair dismissal. Further, he seeks recoupment of the cost of the lawsuit and attorney fees, the amount of which is unknown at it is dependent on the length of the lawsuit.

35. Fruitless and wasteful expenditure

	2019	2018
Opening Fruitless and wasteful expenditure	15 700	121 371
Fruitless and wasteful expenditure - current period	5 753	704 549
Amounts written off by council	(15 700)	(810 220)
	5 753	**15 700**

Reconciliation of fruitless and wasteful expenditure

	2019	2018
Opening Fruitless and wasteful expenditure	15 700	121 371
Fruitless and wasteful expenditure - current period	5 753	15 700
Fruitless and wasteful expenditure identified during the current year relating to prior year	-	688 849
Amount written off by council	(15 700)	(810 220)
	5 753	**15 700**

36. Irregular expenditure

	2019	2018
Opening balance	9 531 645	47 275 810
Add: Irregular Expenditure - current year	5 500 766	9 531 645
Less: Amounts condoned	(9 531 645)	(47 275 810)
	5 500 766	**9 531 645**

Reconciliation of Irregular Expenditure

	2019	2018
Opening Balance	9 531 645	47 275 810
Irregular expenditure current year	5 500 766	7 661 206
Irregular expenditure identified during the current year relating to prior year	-	1 870 439
Less: Amounts written off by the council	(9 531 645)	(47 275 810)
	5 500 766	**9 531 645**

37. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government(SALGA)

	2019	2018
Current year subscription fee	1 015 210	964 000
Amount paid - current year	-	(964 000)
Balance unpaid (included in payables)	**1 015 210**	**-**

Audit fees

	2019	2018
Current year fee	2 773 161	1 564 028

Notes to the Annual Financial Statements

	2019	2018 Restated

37. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Current year fee	8 412 950	5 961 516
Amount paid - current year	(8 412 950)	(5 961 516)
	-	-

Pension and Medical Aid Deductions

Current year fee	10 863 403	4 867 168
Amount paid - current year	(10 854 516)	(4 867 168)
	8 887	-

The balance of R 8887.00 relates to an outstanding balance for the Discovery Health which is a debit order and it only debits on the 2nd or 3rd of the following month.

VAT

VAT receivable	4 266 922	-
VAT payable	-	1 173 412
	4 266 922	**1 173 412**

Councillors' arrear consumer accounts

As at the end of the financial year no councillor had arrear accounts that have been outstanding for more than 90 days.

38. Deviations from the supply chain management regulations

Deviations - current period	528 233	6 494 793
Amount approved by council	(528 233)	(6 494 793)

Nature of deviation		
Sole Supplier	-	3 642 470
Emergency	85 180	950 650
Other	443 053	1 901 673
	528 233	**6 494 793**

39. Contingent asset

During the year of 2017/2018 an amount of R 1 250 000 was paid to Khansela CC and an amount of R 300 000 was paid to Aphile CC. These payments were made to the suppliers without any order, invoice or goods delivery note. To determine their authenticity they were referred to the Internal Audit unit for investigation.Subsequently during the year of 2018/2019 the Municipality has since appointed an investigating company by the name of Nexia SAB&Tto investigate the matter.The municipality believes that there is a high likelihood that these amounts (totaling R 1 550 000) will be reimbursed to the municipality.

During the previous financial year, the Municipality made an erroneous payment to Mpandla Trading of R1,295,2573.23 and has failed to recover the money over the past period. The Municipality as such, has since taken legal action in an attempt to recover the money. If successful, the amount shall be paid back to the Municipality in the possible near future.

Notes to the Annual Financial Statements

	2019	2018 Restated

40. Reasons for material differences

39.1 Service charges

The municipality was too optimistic and could not achieve the set budget. This is due to targeted consumers not opening new account because of issues relating to Ingonyama Trust Land ownership dispute.

39.2 Rental of facilities and equipment

The municipality achieved 3 percent more than the approved budget and which is perceived to be reasonable.

39.3 Other income

Actual performance is less than the budget and the budget amount was a bit unrealistic.

39.4 Interest received - investment

The municipality achieved more than the ordinally approved budget. This is due to favourable investment interest rates offered by financial institutions and better cash management decisions.

39.5 Property rates

The municipality achieved 7 percent or R1.2 million more than the set budget due to accurate billing and which is a positive feedback.

39.6 Government grants & subsidies

The municipality generated 1,6 percent more than the approved municipal Government grants due to an error on budgeting.

39.7 Personnel

The increase is due to the employeement of new staff including directors (some also had received back pays during the year due to the change in the government gazettee).

39.8 Remuneration of councillors

The municipal grade was upgraded from two to three after the approval of the adjustment budget.

39.9 Depreciation and amortisation

The amount of R3.6 million was due to certain assets not accounted for as per 2017 AFS. Its has since been rectified.

39.10 Finance costs

The municipal budget was not realistic due unactioned plans for rehabilitating landfill site as anticipated at first.

39.11 Operating Lease

The municipal budget was not achievable due to an error which took place during the budgeting process.

39.12 Debt Impairment

The debt impairment actual amount is more than the budget due to more unpaid accounts found under Ingonyama Trust Land.

39.13 Free basic services

The municipality did not spend its budget 100 percent due a decline in registered indigent consumers..

Notes to the Annual Financial Statements

	2019	2018 Restated

39.14 Contracted Services

The municipal budget was not achievable due to an error which took place during the budgeting process..

39.15 General Expenses

The municipality under achieved by 4 percent during the year which is perceived to be reasonable.